partnerships

British Columbia

ANNUAL REPORT

04-05

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Contents

Introduction 1

Message from the Chair 2

The Year in Review 4

Organizational Overview 6

Report on Performance 9

Alignment with Government's Strategic Plan 16

Management's Discussion and Analysis 17

Management Report 23

Report of the Auditor General on Annual Operations 24

Financial and Financial Statements 25

Schedules and Tables 33

Glossary: Abbreviations, Acronyms and Special Terms Used 34

Contents

Introduction 1

Message from the Chair 2

The Year in Review 4

Organizational Overview 6

Report on Performance 9

Alignment with Government's Strategic Plan 16

Management's Discussion and Analysis 17

Management Report 23

Report of the Auditor General of British Columbia 24

Consolidated Financial Statements 25

Corporate Governance 33

Subsidiary: Abbotsford Hospital and Cancer Centre Inc. 34

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Introduction

This annual report is provided as a review of fiscal year 2004–05 for Partnerships British Columbia Inc. (Partnerships BC). In keeping with direction from the Province, this report focuses on key aspects of the company's operations and outcomes that are of public interest. For Partnerships BC, this means a focus on the broad objective of helping the Province deliver needed infrastructure.

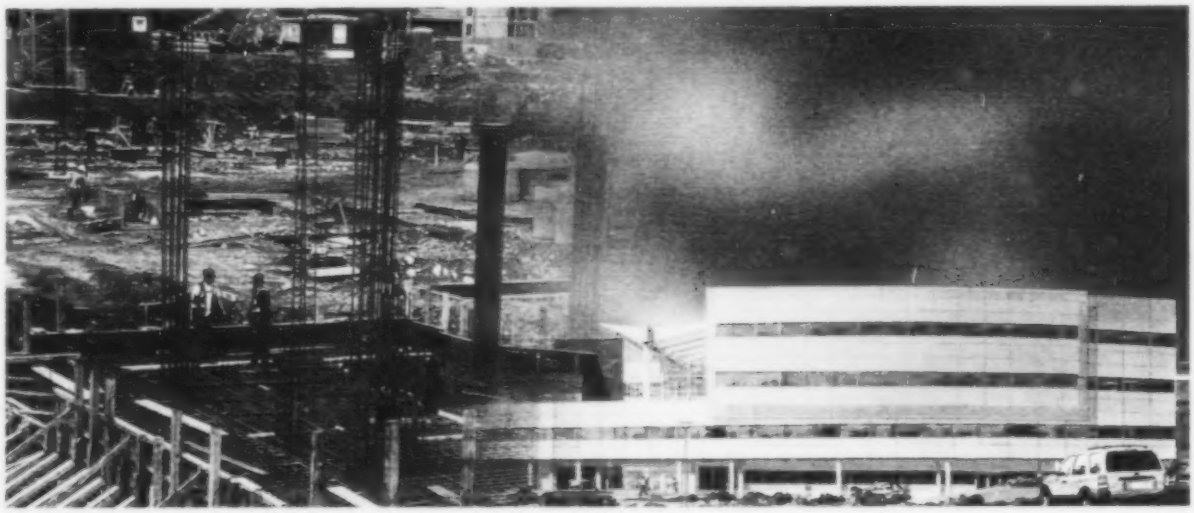
In line with government reporting standards, this annual report provides specific information on Partnerships BC's goals, objectives and results, and information such as the organization's mandate and governance. Combined, this information provides a comprehensive picture of Partnerships BC's contribution to the Province of British Columbia.

In brief, the report provides the following:

- highlights for the 2004–05 year;
- an organizational overview, including the company's vision, mission, mandate, values and core business;
- the report on performance, including information on changes to goals and measures; performance tracking and measurement methods; and targets for the next several years;
- alignment with the government's strategy;
- management's discussion and analysis and the company's audited financial statements;
- information on the company's governance structure; and
- information on Partnerships BC's subsidiary, Abbotsford Hospital and Cancer Centre Inc. (AHCC Inc.).

JUN 29 2005

WE ARE PLEASED TO PRESENT THE 2004–2005 ANNUAL REPORT FOR PARTNERSHIPS BRITISH COLUMBIA INC.



Message from the Chair

Partnerships BC has assisted the Province in its ability to respond to the pressing need for infrastructure in British Columbia. With Partnerships BC's guidance, projects underway today are creating a capital investment of $3.6 billion in British Columbia, which is a mix of public and private sector investment. As a result, British Columbians will benefit from improved, expanded and innovative transportation, health care and other infrastructure.

In this fiscal year, Partnerships BC assisted government clients in completing four agreements, delivering to British Columbians the Abbotsford Regional Hospital and Cancer Centre (AHCC), the Academic Ambulatory Care Centre, the Britannia Mine Water Treatment Plant, and the Sierra Yoyo Desan (SYD) Resource Road. Together these projects are designed to provide necessary health care infrastructure, support environmental remediation and facilitate the growth of the oil and gas industry. All four projects demonstrate value for money for B.C. taxpayers by protecting taxpayers from risk, introducing competition and innovation and providing estimated savings, per project, in the range of $10 million to $39 million (net present value), over project life cycles. Two of these, the AHCC and SYD projects, have been recognized nationally and internationally with industry awards.

Partnerships BC has made the transition from concept to reality. Today, public private partnerships are a successful part of the Province's approach to delivering essential infrastructure. Through its projects and other outreach efforts, Partnerships BC is demonstrating that public private partnerships are helping government to:

- build the roads, health care facilities and other infrastructure that our province needs, using

private sector financing;

- pay for infrastructure only when it is ready to be used;
- transfer risks associated with these kinds of projects – risks like schedule delays, cost overruns on materials and labour, or future problems with ongoing operations and maintenance – to the private sector, so that the government doesn't have to use taxpayers' money to cover unforeseen costs, and so that more money is available to deliver other government services;
- attract innovative and experienced private companies, which through a rigorous competitive selection process, bring innovation in design, financing, construction methodology, and operations and maintenance – resulting in a better product and/or service for the public. Additionally, these firms have created highly skilled and highly paid employment opportunities in the province.

Partnerships BC has achieved remarkable success in its second year of operations in advancing its objectives: to build a team to define core processes, to achieve financial stability, and to build a reputation in the market place. This success is due to the leadership within Partnerships BC, the dedication and expertise of its employees and the strong support of the Board of Directors.

It is with sadness that we note that founding Board member Douglas McKay passed away in January of this year. We recognize his substantial contribution, which helped set the foundation for Partnerships BC. His knowledge, enthusiasm and dedication will be greatly missed.

Partnerships BC has worked hard to ensure that projects are managed in a way that leads to fair competition and transparent processes, and the organization has received recognition for its level of disclosure.

The company's activities have increased confidence in the public private partnership model as an option for British Columbia. More private sector companies are interested in the B.C. market and more community leaders and citizens are voicing their support for Partnerships BC's projects.

Looking forward, Partnerships BC is actively engaged in a range of high-priority projects in the transportation, health and advanced education sectors. These include new roads and bridges in the Kootenay, Okanagan, Peace River and Lower Mainland regions, and the development of health services, advanced education and sport/recreation infrastructure. Several more projects are in earlier stages of development. In the next fiscal year, we expect to help our clients reach final agreement and see construction start on a number of major projects, including the Sea to Sky Highway Improvement Project, the Okanagan Lake Crossing, and the Kicking Horse Canyon Project (Phase Two).

The 2004–05 Partnerships BC annual report was prepared under the Board's direction in accordance with the Budget Transparency and Accountability Act. The Board will hold management accountable for the contents of the report, including the selection of performance measures and how the results have been reported. The information presented reflects the actual performance of Partnerships BC for the twelve months ended March 31, 2005. All significant decisions, events and identified risks, as of March 31, 2005, have been considered in preparing the report.

The information presented is prepared in accordance with the B.C. Reporting Principles and represents a comprehensive picture of Partnerships BC's actual performance in relation to its service plan.

Rick Mahler
Board Chair

The Year in Review

Partnerships BC advised and supported clients in reaching financial close on four projects. Two of these have won industry awards, and all four are under construction, providing much-needed infrastructure to British Columbians. For each of these projects, value for money has been demonstrated, and value for money reports and other key procurement-related documents have been disclosed. As a result, Partnerships BC has been recognized for its high level of disclosure.

- The Sierra Yoyo Desan Resource Road, built at no cost to taxpayers, allows for more oil and gas exploration and production, which is forecasted by the Province to result in increased royalties to the provincial government of $250 million per year. This $40 million project, completed for the Ministry of Energy and Mines, was awarded the Canadian Council for Public-Private Partnerships Project of the Year for financing.

- The Academic Ambulatory Care Centre is designed to make it easier for Lower Mainland residents to access the health care diagnostics and treatment specialists they need, in a facility designed to improve opportunities for teaching University of British Columbia medical students. Partnerships BC acted as an advisor to Vancouver Coastal Health on this $95 million project, which also involved the University of British Columbia and the Ministry of Health Services. On a whole life cycle basis, the project is expected to result in savings to taxpayers of $17 million in net present value terms.

- The Abbotsford Regional Hospital and Cancer Centre is designed to provide the rapidly growing Fraser Valley Region with enhanced and improved public health care. The $355 million hospital and cancer centre will provide a patient-centred environment that is the most modern and

technologically advanced in Canada. The project is estimated to realize a positive economic benefit to taxpayers of more than $39 million in net present value terms, over the life of the agreement. This project won the Project Finance Magazine North American Public Private Partnership Deal of the Year Award, and is short-listed for Project Finance Magazine's Best Global Project Award. In addition, the Auditor General concluded that the project value for money report fairly described the project results to date. Partnerships BC is the project manager.

- The Britannia Mine Water Treatment Plant project – a water treatment plant that will clean up polluted water from this former mine site – is expected to help revitalize the natural environment, and be the first step in developing a residential and tourist attraction at Britannia Beach. The net present life cycle cost of the project is $27.2 million; the savings over the term of the agreement are estimated at more than $10 million in net present value terms. The procurement was managed by Partnerships BC on behalf of the Ministry of Sustainable Resource Management.

- Partnerships BC supported clients in initiating the procurement of several new projects during the year. Projects currently in the competition phase, and expected to reach financial close in fiscal 2005–06 include: Kicking Horse Canyon Project (Phase Two), the Okanagan Lake Crossing Project, the Sea-to-Sky Highway Improvement Project, and the Richmond-Airport-Vancouver Rapid Transit Project (on which Partnerships BC served as advisor to the Province). Partnerships BC has entered into a number of new engagements in the areas of transportation, advanced education, recreation facilities and health care infrastructure. The Board of Directors determined that the company had met all achievable milestone events on all projects.

- The company refined its business model to focus on creating new partnership opportunities, developing a public private partnership centre of expertise, and the development and maintenance of high standards of client service and public disclosure. In addition, the company revised its goals and targets, and developed and implemented plans to effectively measure progress towards targets.

- A client survey methodology was developed and the first survey was completed, with positive results. Overall, clients are satisfied that Partnerships BC is working responsively and in their best interests.

- The company is a new organization, with just two full years of operations behind it. As such, there was considerable uncertainty in the preparation of forecasts, and this resulted in a net income that was less than projected. However, Partnerships BC is satisfied with its commercial viability, given that revenues exceeded expenditures and the company ended the year with sufficient equity on hand.

The Abbotsford Regional Hospital and Cancer Centre is designed to provide the rapidly growing Fraser Valley Region with enhanced and improved public health care.

Organizational Overview

This section provides background information about the company's mandate, vision, mission and values, as well as a description of products, services and clients served.

Mandate

Partnerships BC was established in 2002, under the B.C. Business Corporations Act (previously the Company Act.) The company's mandate, as set out in the January 2004 Shareholder's Letter of Expectation between the Board Chair and the Minister Responsible, includes:

- advancing and pursuing alternative procurement arrangements for public sector client agencies where it can be demonstrated that such procurement arrangements will improve services and achieve value for money;
- assisting public sector client agencies in identifying and managing public private partnership opportunities;
- achieving commercial viability by March 31, 2006, with the ability to maintain the company's viability on an ongoing basis;
- improving the efficiency and quality of delivery of public private partnership transactions;
- ensuring the public interest is served;
- demonstrating fair, transparent and competitive processes; and
- creating a marketplace and environment conducive to the growth of the public private partnership sector.

Vision

Partnerships BC serves the public interest by structuring and implementing public private partnerships that provide taxpayers value for money. The company is committed to commercial viability, transparent operations, and achieving and being recognized for innovation, leadership and expertise in public procurement.

Mission

Partnerships BC promotes, enables and helps in the structuring and implementation of public private partnership projects. It works with public sector agencies and private sector partners to create agreements that combine the best aspects of private sector expertise and public sector stewardship by:

- selecting partners through a competitive, fair and transparent process that delivers the best product or service at the best price;
- ensuring the transfer of appropriate risk;
- instilling a pay-only-for-performance system based on the private sector's ability to meet standards set by government;
- ensuring the public interest is served in each project; and
- attracting international expertise and capital to British Columbia.

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Values	Corresponding Leadership Philosophy
Obtaining Value for Money	• explore and encourage innovation, new ideas and partnerships for infrastructure solutions that result in value for money • explore opportunities to increase social, economic, environmental, or other benefits derived from infrastructure investments
Serving the Public Interest	• ensure that public interest issues are assessed and protected in developing solutions to infrastructure challenges • provide public agencies with tools and support to identify, evaluate, allocate and manage risk effectively
Competition and Transparency	• ensure that all activities engaged in by the company and its staff maintain the highest levels of fairness and openness
Strong Accountability	• measure and report on performance at all levels • recognize achievement and benefit from lessons learned
Respect and Integrity	• focus on clients, provide leadership, encourage teamwork, and value diversity and differences of opinion • protect confidentiality of commercial information

Primary Business

Partnerships BC's products and services support the Province's ability to involve private sector expertise, services and capital in the procurement and delivery of complex capital projects.

As a Crown agency, Partnerships BC fulfills its mandate through the following service areas:

- developing public private partnership expertise, documentation, processes and experience – for the benefit of its clients and B.C.'s taxpayers;
- providing a full spectrum of services on a turnkey basis, giving clients strong analysis and management of the public private partnership process, and allowing clients to focus on their core businesses and accountabilities;
- providing full integration of its services with third party, professional advisory services (project management, accounting, financial, legal) necessary to successfully conduct a competitive procurement process;
- using varied project experience to provide a knowledge bank of best practices from which new projects benefit – helping to achieve a variety of objectives such as reducing procurement costs on new projects; and
- utilizing a highly qualified Board of Directors, with considerable understanding and insight into both the public and private sectors, to assess the commercial viability of public private partnership proposals.

Partnerships BC's specific products and services include:

- procurement management;
- project management;
- best practices documentation, procedures and experience;
- development of new partnership structures;
- business case development and value for money analysis;
- partner identification and market sounding;
- advice on contract negotiations;
- advice on government approval processes; and
- advice on issues management and communications.

Corporate Overview

Partnerships BC is a Business Corporations Act company wholly-owned by the Province and governed by a Board of Directors. The Board reports to its sole Shareholder, the Province of British Columbia represented by the Minister of Finance.

The company's primary clients are public sector agencies, including ministries, Crown corporations, health authorities and post-secondary institutions. To serve these clients effectively, Partnerships BC is also working to build strong relationships with the public private partnership advisory community and private sector partners such as businesses, investors, the financial services sector and providers of construction, engineering and facilities management services.

The company's organization, staffing and governance reflect and support this strategic combination of public and private sector interests to best serve public needs. Project directors and consultants have a mix of skills and expertise from both sectors and the company has offices in both Vancouver and Victoria to serve both sectors effectively.

During the 2004–05 fiscal year, Partnerships BC restructured its operations, creating three strategic areas to support the company's project focus. In addition to the financial administration unit, the new strategic areas are partnerships development, corporate and government relations, and policy and practices. Project consultants and project staff work on teams, reporting to various vice-presidents and project directors, depending on the project.

Report on Performance

This section provides a detailed discussion of Partnerships BC's goals, strategies, measures, targets and performance. This includes a discussion of changes that were made to some goals and measures during the year; an explanation of how measures were tracked; and a review of key challenges and the steps taken to mitigate those challenges.

Goals

Building on the progress made in 2003–04 and reflecting the vision of its new Board of Directors, the company initially established five goals for the 2004–2005 fiscal year:

- to pursue, structure and implement public private partnerships;
- to satisfy clients;
- to become commercially viable;
- to serve the public interest and ensure competitive, fair and transparent processes; and
- to be widely recognized as a centre of excellence for innovation, leadership and expertise in public private partnerships.

Changes to Goals

During the year, revisions were made to some 2004–05 goals and performance measures to more accurately reflect important changes, including the vision of a new Board of Directors, the development of a management information system, and the Board approval of a detailed financial plan. The Board of Directors evaluated Partnerships BC's performance based on the revised goals and measures. These revisions are reflected in the 2004–05 budget approved by the Board in September 2004, and in the 2005–06 service plan, approved by the Board in January 2005. Detailed changes are provided in an appendix to this report. Material changes to goals and measures are described below.

- For the goal of achieving commercial viability, measures were adjusted to align with the new financial plan. Specifically, a financial measure was changed from requiring that equity exceeds twelve months of operating expenses, to requiring that equity exceeds six months of operating expenses. Also, two measures were added: meeting 2004–05 financial plan targets, and being

positioned to maintain commercial viability on an ongoing basis.

- For the goal of becoming widely recognized as a centre of expertise, the measure of achieving external recognition was supplemented with the measure of achieving revenue generation from clients outside of the provincial government. The new measure was seen to be more objective.
- A sixth goal, to build and retain the Partnerships BC team, was added, in recognition of the strategic importance of attracting and retaining the right people with the right mix of skills and experience. Measures for this goal were revised in May 2005.

Partnerships BC holds a unique place in the market, with a mandate to serve the public interest utilizing a corporate project delivery model.

Measurement

Partnerships BC holds a unique place in the market, with a mandate to serve the public interest utilizing a corporate project delivery model. Partnerships BC has developed a combination of qualitative and quantitative measures to reflect its dual nature. Qualitative measures, such as those related to transparency and fairness, relate to the public service facet of the company's goals. Quantitative measures, such as standard measures of commercial viability, reflect the corporate delivery model influence. Measures and targets will be continuously refined as Partnerships BC becomes a more mature organization.

Partnerships BC tracks data for measures from a number of sources, including:

- the financial plan presented to the Board of Directors, which is benchmarked against comparable industry key indicators, such as gross margin percentage and net income pre-variable compensation percentage;
- the tracking of project milestones and comparison of milestones achieved based on project plans and terms of engagement;
- implementation of a knowledge management strategy to track and catalogue procurement related practices and policies; and
- information from client and employee satisfaction review processes.

The Board of Directors receives quarterly reports on the company's progress toward goals, based on the measures provided here.

Risks Affecting Results

During the year, a number of risks affected Partnerships BC's operations. Partnerships BC successfully identified and managed these risks, and mitigation strategies were integral to achieving the 2004–05 results.

Scope of Business, Focus and Client Base

Partnerships BC's ability to execute is dependent upon the scope and nature of its engagements with client agencies. The company's client market (government agencies) and service offering (public private partnerships) are relatively narrow, and this focuses business development opportunities.

Partnerships BC developed a number of strategies to ensure strong market growth. In summary, the company:

- worked to expand its potential client market to include other levels of government and other jurisdictions;
- focused on providing quality outcomes to existing clients to increase confidence and encourage future engagements;
- consulted regularly with government agencies to understand their emerging needs and identify project opportunities; and

- applied rigorous business case analysis to ensure that qualitative factors such as a project's social, environmental and public interest impacts are identified and addressed along with financial impacts and service outcomes.

Public Private Partnership Market and Capacity

The public private partnership market in Canada and internationally is in the early stages of development. As a result, capacity in B.C. is growing, and competes with other jurisdictions. In addition, strong growth in construction activity in B.C., nationally and internationally, means Partnerships BC will continue to work to develop the market.

Partnerships BC worked to develop relationships with stakeholders and business partners and to standardize practices to support market development. The company also continued to work to understand the international market and broaden the Canadian market through a variety of research and outreach activities.

Reputation Risk

The ability of Partnerships BC to provide quality service and foster market growth is directly tied to the reputation of the company and the demonstrable success of its projects. The company focused on ensuring a high level of disclosure and transparency, and addressing concerns and criticisms of all stakeholders. In addition, Partnerships BC drives the development and implementation of best practices in procurement, and ensures that its Board and staff operate at the highest levels of integrity.

Internal Experience and Capacity

Partnerships BC must balance increased demand for its services with its corporate capacity to ensure successful performance. As the company grows to meet needs, it will continue to strategically select employees and consultants who help build the experience and skill sets required by its clients.

Partnerships BC's human resource and knowledge management strategies are designed to build a strong team. Hiring the right mix of skills and expertise, ensuring that best practices are shared, and that staff are able to continuously learn and improve are key elements of these strategies.

2004–05 Performance Results

Partnerships BC presented its performance results to the Board of Directors at the end of 2004–05 and the company met its measures in terms of meeting project milestone events; demonstrating value for money on completed projects; client satisfaction; and developing a long term market in British Columbia. While the company met the goal of commercial viability, it did not meet the Board-approved financial plan targets. A summary of targets and results for 2004–05, and measures for future years, follows at the end of this section.

The ability of Partnerships BC to provide quality service is directly tied to the reputation of the company and the demonstrable success of its projects.

Goal 1 – To Pursue, Structure and Implement Public Private Partnerships

Partnerships BC's primary mandate is to enable and facilitate public private partnerships that benefit British Columbians, both economically and in terms of protecting public interest. By achieving this goal, the company is helping build infrastructure essential to the economic development of British Columbia. The company tracks its performance in structuring and implementing public private partnerships primarily by monitoring the number of project milestones met and the number and type of new projects initiated.

Strategies

- identify and apply best practices from project to project to help ensure continuous improvement
- continue to build and improve upon relationships with public sector client agencies
- develop internal performance measures for Partnerships BC and its staff which tie individual and collective success to the achievement of milestone events
- ensure that business development is a key component of the work of all senior staff
- continually seek out business opportunities with new, potential and existing clients
- develop a presence in the business community to ensure Partnerships BC is recognized as the key catalyst for success in public private partnership projects
- enter into public private partnership development agreements with ministries/agencies in strategic sectors

Outcomes

During the year, Partnerships BC worked actively on engagements for a variety of B.C. government departments, as well as other jurisdictions both within and outside of B.C. All controllable milestones were met, meaning that projects were proceeding according to schedules. Four projects reached financial close, and each one of these demonstrated solid value for money for taxpayers. In addition, Partnerships BC won repeat assignments with clients.

Goal 2 – To Satisfy Clients

In support of its primary goal, Partnerships BC is committed to ensuring that public sector clients are provided with the highest standard of service available, and that they are satisfied with the quality of services. Achieving this goal means that Partnerships BC's clients believe that the company is making a positive contribution to their own goals and mandates.

Strategies

- formalize methods for obtaining and measuring client input, including identifying what clients value most from Partnerships BC, and ensuring that client feedback translates into service improvements to meet client expectations
- develop mechanisms that turn client input into strategies for service improvement

Outcomes

In 2004–05 Partnerships BC developed and implemented a client review system, and carried out the first of what will become annual reviews. Results from the first review indicate that generally, clients have a high degree of satisfaction with the service they receive from the company. Seventy-six per cent of clients responded. The results show that 100 per cent of respondents believe the company is committed to client success, and 92 per cent are satisfied with the company's timeliness. However, there are areas for improvement. Most importantly, 68 per cent of respondents were satisfied with Partnerships BC's current resources. Specific areas for improvement noted were increasing expertise in certain knowledge areas such as business case development and project management skills. Partnerships BC is implementing targeted hiring, as well as training programs, to address these knowledge areas.

Goal 3 – To Become Commercially Viable

Also in support of its primary goal, Partnerships BC is committed to ensuring it is a commercially viable organization by 2006 and on an ongoing basis. Any revenues received from government will be for services provided by the company under the terms of either service contracts or project development agreements.

Strategies

- ensure that engagement agreements require the payment of fees commensurate with the cost of services provided

- ensure that Partnerships BC resources and cost structure are appropriate for the expected workload
- prudently manage expenses and internal costs
- build an equity base as a contingency for business fluctuations
- structure contracts with milestone payments to further stabilize cash flow

Outcomes

For 2004–05, the company was commercially viable in that revenues exceeded expenditures, although net income was below projections due to changes in project schedules, and a shortfall in revenue from new business. Expenditures increased year over year, reflecting a full year's operating expenses for a fully implemented organization, and the increased resources required to manage an expanded base of projects.

Goal 4 – To Serve the Public Interest and Ensure Competitive, Fair and Transparent Processes

Partnerships BC shares with its public sector clients a commitment to managing its projects such that the public interest is served. The company is committed to ensuring that its operations and projects are delivered in the most transparent manner possible, demonstrating fairness, integrity and value for money – while protecting confidential information and commercial interests.

Strategies

- develop business plans that provide a solid foundation for decision making, based on assessment of a full range of quantitative and qualitative factors
- ensure that business plans incorporate rigorous financial analysis, risk assessment and management tools to ensure that project risks are properly identified and appropriately allocated and managed
- publish a Value for Money Report, and Report of the Fairness Auditor following the financial closing of each project, and disclose all documentation not deemed to be commercially sensitive

Outcomes

Measures for this goal were met in that Partnerships BC demonstrated value for money for each project that reached financial close through public release of Value for Money Disclosure Reports. These reports are available at the Partnerships BC website. Of note, the Abbotsford Regional Hospital and Cancer Centre Value for Money Disclosure Report was reviewed by the British Columbia Auditor General, who concluded that the report fairly described the context, decisions, procurement processes and results to date of the project.

Also in 2004–05, Partnerships BC engaged fairness auditors for three of the four projects that reached financial close this year. On two projects, positive opinions have been received; on the third project, the final report of the auditor was pending at the time of printing of this annual report.

Goal 5 – To Be Widely Recognized as a Centre of Excellence for Innovation, Leadership and Expertise in Public Private Partnerships

The purpose of this goal is to ensure that best practices are identified and transferred from one project to the next, and that British Columbia becomes recognized as an attractive market for public private partnerships.

Strategies

- implement a knowledge management system to capture and incorporate best practices
- attract new participants to the British Columbia market thereby creating more scope for competition and innovation

- undertake business development for Partnerships BC's services beyond core provincial government client agencies
- implement a stakeholder outreach program to increase visibility and appreciation of Partnerships BC in the broader international market
- participate both within and outside British Columbia at conferences and workshops
- continually assess and appraise the quality of services provided by Partnerships BC with clients, external stakeholders, project participants and private partners

Outcomes

The Board of Directors determined that the Centre of Excellence was significantly advanced in 2004–05. Examples include winning national and international awards; receiving positive media coverage and stakeholder validations; evidence of Partnerships BC best practices being implemented across projects, and by other governments; and new market participants, such as ABN Amro, AMEC and Ledcor locating and/or expanding in British Columbia.

Goal 6 – To Build and Retain Team

This goal was added during the 2004–05 year to recognize the importance of building and retaining a strong team as a core strategy to achieving the company's goals.

Strategies

- develop and implement an updated human resources strategy
- implement a targeted training program for staff

Outcomes

During this fiscal year, an employee satisfaction review was completed. The survey measured employee satisfaction in a number of areas, such as employee performance and accountability, job satisfaction, organization effectiveness and recognition and compensation. Results ranged from 88 per cent of respondents satisfied with performance and accountability, to 69 per cent of respondents satisfied with recognition and compensation. These results are seen as positive, however, management is developing strategies to increase overall employee satisfaction in the future.

Summary of Targets and Results

	04–05 Target	04–05 Results	05–06 Target	06–07 Target	07–08 Target
Goal 1 **To Pursue, Structure and Implement Public Private Partnerships**	• Project milestones achieved • Pilot engagements in key sectors • Engagements with clients other than the Province of British Columbia	• All controllable project milestones met • Four financial closings • New engagements in health and advanced education • Three engagements with clients outside of the Province	Positive assessment by Board of Directors of milestones and new engagements achieved	Positive assessment by Board of Directors of milestones and new engagements achieved	Positive assessment by Board of Directors of milestones and new engagements achieved
Goal 2 **To Satisfy Clients**	Client survey results indicate performance meets or exceeds client requirements	• Client review system developed and implemented • 100% satisfied with commitment to client sucess • 68% satisfied with current resources • Results will be used to set benchmark	Client satisfaction report shows expectations met/exceeded	Client satisfaction report shows expectations met/exceeded	Client satisfaction report shows expectations met/exceeded
Goal 3 **To Become Commercially Viable**	• Meet financial plan targets, including net income of $910,363* • Equity exceeds six month operating expenses	• Did not meet financial plan target ○ Net income below target, at $289,516 • Equity exceeds one year's operating expenses	Targets met, including net income of $1,214,471 (05–06 Service Plan)	Targets met, including net income of $2,286,761 (05-06 Service Plan)	Targets met, including net income of $2,628,243 (05–06 Service Plan)
Goal 4 **To Serve the Public Interest and Ensure Competitive, Fair and Transparent Processes**	• Publish Value for Money (VFM) Disclosure Report after every financial closing • Publish fairness and probity opinions on all projects	• VFM reports published on four projects which reached financial close in 04–05 • Positive fairness opinions delivered on two projects where fairness auditors were engaged. Fairness opinion on a third project is not yet complete.	100 % reports published	100 % reports published	100 % reports published

Goal 5
To be Widely Recognized as a Centre of Excellence
	• Annual examples of best practices established, acknowledged and adopted within the Provincial government and by other governments
	• Annual examples of synergies and process cost savings
	• Revenue generation from clients outside of the provincial government
	• New market participants in B.C.
		• Advancement of Centre of Excellence, based on:
		  ○ Management structure developed
		  ○ Two awards
		  ○ Positive media and stakeholder feedback achieved
		  ○ Synergies across projects demonstrated
		  ○ Revenue from three non-B.C. clients
		  ○ New market participants including ABN Amro, AMEC and Ledcor
			Examples published
			
			Revenue from non-B.C. sources
			
			Number and size of new market participants
				Examples published
				
				Revenue from non-B.C. sources
				
				Number and size of new market participants
					Examples published
					
					Revenue from non-B.C. sources
					
					Number and size of new market participants

Goal 6 **To Build and Retain Team**	Not applicable. Goal developed for 2005–06 year	Employee satisfaction survey and client satisfaction survey were both developed. Employee satisfaction results range from 87.6% to 69.2%. Results will be used to develop benchmarks for future years.	Measures will be set based on issues identified through client and employee feedback. 85% employee satisfaction	Measures will be set based on issues identified through client and employee feedback. 85% employee satisfaction	Measures will be set based on issues identified through client and employee feedback. 85% employee satisfaction

Note: Changes to goals and measures are explained in the Appendix at the end of this report.

*The 2004-05 budget of $910,363 was approved by the Board subsequent to the filing of the 2004-05 Service Plan as the Company was in the process of finalizing new financial and budgeting systems. See MD&A on page 17 for further details.

Alignment with Government's Strategic Plan

Partnerships BC supports a number of strategic priorities of government. Overall, the Province has stated its intention to find more efficient and effective ways of providing services and infrastructure. Public private partnerships support this direction by delivering major capital projects that meet public needs at minimum life cycle cost with optimum sharing of risks between the public and private sector.

- Partnerships BC supports the Province's goal of achieving a strong and vibrant provincial economy by encouraging and facilitating private sector involvement in the delivery of critical public sector infrastructure. For example, transportation systems are critical to maintaining a strong economy and facilitating growth. Also, public private partnerships result in increased private investment, and increased risk transfer to the private sector.
- Partnerships BC's mandate to help the Province provide high quality capital infrastructure directly supports the Province's goal of developing supportive social infrastructure.
- Partnerships BC also supports the Province's goal of providing safe, healthy communities and a sustainable environment. Basic infrastructure such as water treatment plants, a reliable transportation system and state of the art health care facilities are a key requirement for safe, healthy communities. Partnerships BC helps to deliver this infrastructure in a way that best serves the public interest.

Partnerships BC's mandate to help the province provide high quality capital infrastructure directly supports the Province's goal of developing supportive social infrastructure.

Management's Discussion And Analysis

This Management's Discussion and Analysis (MD&A) of Partnerships British Columbia Inc. (Partnerships BC or the Company) should be read in conjunction with the consolidated financial statements and accompanying notes. The results reported have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and are presented in Canadian dollars.

A comparison of 2004–2005 actuals to the Company's Service Plan budget is not provided because the Company was in the process of building new financial and budget systems, and its Service Plan budget was prepared without benefit of historical operational data. As a result, the Company believes such comparison would not provide meaningful information.

This MD&A also contains forward-looking statements, including statements regarding business and anticipated financial performance of the Company. Forward-looking statements are subject to a number of risks and uncertainties that may cause actual results or performance to differ materially from forecasted results expressed or implied.

Annual Overview

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Abbotsford Hospital and Cancer Centre Inc. (AHCC).

The Company had consolidated revenues of $6,369,431 in 2004–05 compared to $7,424,651 in 2003–04 which resulted in a net income of $289,516 compared to a net income of $1,965,993 last year. The decline in net income was due to a decrease in consolidated revenues attributable to a decrease of $300,000 in the annual government services contract and $748,500 in completion and milestone fees. The decrease in completion and milestone fees was due to the Company undertaking a number of projects in 2003–04 which called for completion and milestone fees only. The decrease in net income was also the result of an increase in salaries and benefits and other non-recoverable expenses. This was due to the increased use of external consultants on certain projects which is reflected in salaries and benefits as consulting fees.

The table below presents a comparison of selected income statement items of the current fiscal year with those of the previous fiscal year.

			(% of revenues)	
	2005	2004	2005	2004
Revenues	$ 6,369,431	$ 7,424,651		
Project recoveries	10,161,385	6,147,614	159.5%	82.8%
Project expenses	10,181,605	6,436,043	159.9%	86.7%
Salaries and benefits	4,372,481	3,478,213	68.6%	46.8%
General and administrative expenses	1,539,456	1,582,704	24.2%	21.3%
Amortization	147,758	109,312	2.3%	1.5%
Net income for the year	$ 289,516	$ 1,965,993	4.5%	26.5%

Revenues

Consolidated revenues for the year ended March 31, 2005 were $6,369,431 of which $3,056,801 or 48 per cent was for work fees, $1,392,500 or 22 per cent was for completion and milestone fees and $1,800,000 or 28 per cent was revenue from the government services contract. Gross revenues for the year ended March 31, 2004 were $7,424,651 of which $3,105,824 or 42 per cent was for work fees, $2,141,000 or 29 per cent was for completion and milestone fees and $2,100,000 or 28 per cent was revenue from the government services contract. The decrease in consolidated revenues was attributable to a decrease of $300,000 in the annual government services contract and a decrease of $748,500 in completion and milestone fees. The

Company undertook a number of projects in 2003–04, namely the Pacific National Exhibition and Burns Bog projects, which called for completion and milestone fees only.

The table below provides details of the Company's revenues by category.

	2005	2004	Change	%
Work fees	$ 3,056,801	$ 3,105,824	$ (49,023)	(1.6%)
Completion and milestone fees	1,392,500	2,141,000	(748,500)	(35.0%)
Provincial government revenue	1,800,000	2,100,000	(300,000)	(14.3%)
Other revenue	120,130	77,827	42,303	54.4%
	$ 6,369,431	$ 7,424,651	$ (1,055,220)	(14.2%)

Work fees

Work fees typically reflect the cost of providing services and are not directly related to milestone events or performance.

Work fees were recognized from several provincial government ministries, Crown corporations and non-ministry sources including:

- Ministry of Transportation
- Ministry of Health Services
- Ministry of Sustainable Resource Management
- TransLink
- Yukon Government
- Royal Roads University

The table below provides details of the Company's work fees and completion and milestone fees by sector.

	Amount	%
Ministry of Transportation	$1,881,773	42.3%
Ministry of Health Services	1,570,450	35.3%
Ministry of Sustainable Resource Management	268,000	6.0%
Crown Corporations	155,250	3.5%
Other Provincial Governments	266,960	6.0%
Others	306,868	6.9%
	$4,449,301	100.0%

Completion and milestone fees

Completion and milestone fees are recognized when the services rendered under contracts are completed or the milestones are achieved, dependent upon performance review by the client.

Completion and milestone fees of $1,392,500 were recognized for the year ended March 31, 2005. The Company recognized its second completion and milestone fee on the AHCC project. This was a fee of $1,000,000 earned for reaching financial close. The Company also recognized a completion and milestone fee of $200,000 from the Ministry of Transportation for meeting their performance expectations in 2004–05. An additional $150,000 completion and milestone fee was earned from the Ministry of Sustainable Resource Management upon achieving financial close on the Britannia Mine Water Treatment Plant project.

Provincial government revenue

Under the terms of the government services contract, the provincial government provides the Company with an annual payment for a variety of services, including: generally developing the public private partnership market for British Columbia projects; assisting agencies to identify and assess public private partnership opportunities; developing provincial policy; developing best practices for public private partnerships and alternative procurement methods; exploring opportunities in other jurisdictions to expand the application of best practices across Canada; and providing other advisory and consulting services directly to the Province and or organizations on an ongoing basis whose costs are not attributable to a specific project. This revenue is recognized on a monthly basis.

The government services contract commenced on April 1, 2002 and will end on March 31, 2008, subject to certain renewal provisions. The term will automat-

ically be renewed for successive periods of one year each unless either party gives at least 90 days prior written notice of non-renewal to the other. In addition, at any time during the term, either party may terminate the agreement by giving not less than six months prior written notice of termination to the other party, in which case the agreement will terminate on the effective date of the notice.

During the year, as provided for in the government services contract, the Company recognized $1,800,000 in provincial government revenue compared to $2,100,000 in 2003–04.

Project recoveries

Project recoveries represent reimbursable project expenses such as legal and consulting fees that are normally recovered. For the year ended March 31, 2005, project recoveries were $10,161,385 compared to $6,147,614 for the year ended March 31, 2004. The increase in project recoveries by $4,013,771 coincides with the increased number of projects undertaken by the Company in 2004–05.

Other revenue

Other revenue consists of interest income earned on surplus cash. For the year ended March 31, 2005, other revenue was $120,130 compared to $77,827 for the year ended March 31, 2004.

Expenses

The table below provides details of the Company's operating expenses.

	2005	2004	Change	%
Salaries and benefits	$ 4,372,481	$ 3,478,213	$ 894,268	25.7%
Administration	322,541	301,882	20,659	6.8%
Building occupancy	440,372	330,882	109,490	33.1%
Communications	73,594	76,218	(2,624)	(3.4%)
Information systems	166,654	168,055	(1,401)	(0.8%)
Professional services	359,850	517,263	(157,413)	(30.4%)
Travel	176,445	188,404	(11,959)	(6.3%)
Amortization	147,758	109,312	38,446	35.2%
	$ 6,059,695	$ 5,170,229	$ 889,466	17.2%

Operating expenses increased by $889,466 from $5,170,229 to $6,059,695. Some of the significant items contributing to the increase were:

- increased use of external consultants on several Ministry of Transportation projects, which is reflected in salaries and benefits;
- increased amortization expense;
- increased administration expenses; and
- increased building occupancy expenses.

The Company's use of external consultants provides it with the flexibility to structure contracts for the duration of the projects. This flexibility provides the Company with the opportunity to maximize the use of its staff project managers. The increase in consulting fees was slightly offset by a decrease in the Company's benefits costs. During the year, the Company changed its benefits structure with the British Columbia Public Service Agency from a flat rate of 22.5 per cent to a pay per use system.

The increased amortization expense was attributable to the full year's amortization of capital assets acquired in 2003–04. During the year, the Company acquired $63,849 in capital assets compared to $240,788 in 2003–04.

The increased administration expenses were due to the increased number of staff, employees and consultants, and increased number of business meetings and workshops. The Company ended the year with 32.65 Full Time Employees (FTEs).

The increased building occupancy costs were due to the Company's expansion of its Vancouver office. Those costs not eligible for reimbursements from clients were disclosed as administrative costs. The Company has downsized its Victoria space requirement and is committed to sub-leasing excess space. During the last quarter, the Company entered into an agreement with British Columbia Building

Corporation and a third party leasing agent to market and sub-lease this space.

The Company's communications, information system and travel expenses were comparable with 2003–04. Even though the Company has completed its second full year of operations (third year of business) with four successful projects, the Company managed to effectively control some expenses. Communications, information systems and travel expenses decreased 3.4 per cent, 0.8 per cent and 6.3 per cent respectively.

Balance Sheet

The table below presents a comparison of selected balance sheet items of the current fiscal year with those of the previous fiscal year. The table should be read in conjunction with Note 3 to the Notes to Consolidated Financial Statements.

	2005	2004	Change	%
Cash and cash equivalents	$ 14,781,438	$ 4,276,089	$10,505,349	245.7%
Accounts receivable	4,920,980	8,680,645	(3,759,665)	(43.3%)
Note receivable	-	1,520,095	(1,520,095)	(100.0%)
Land	4,611,647	-	4,611,647	0.0%
Construction in progress	32,740,568	-	32,740,568	0.0%
Deferred development costs	10,579,665	6,290,389	4,289,276	68.2%
Other assets	409,154	443,249	(34,095)	(7.7%)
Total assets	68,043,452	21,210,467	46,832,985	220.8%
Accounts payable and accrued liabilities	4,004,167	4,266,614	(262,447)	(6.2%)
Deferred revenue	111,724	950,000	(838,276)	(88.2%)
Short-term loan payable	-	1,507,300	(1,507,300)	(100.0%)
Loan payable	33,572,222	-	33,572,222	0.0%
Deferred capital contribution	20,974,032	7,962,862	13,011,170	163.4%
Total liabilities	58,662,145	14,686,776	43,975,369	299.4%
Total shareholder's equity	$ 9,381,307	$ 6,523,691	$ 2,857,616	43.8%

Assets

Cash and cash equivalents increased by $10,505,349 from $4,276,089 to $14,781,438. The breakdown of cash and cash equivalents as at March 31, 2005 was as follows: $4,867,017 in cash, $8,289,081 in restricted cash and $1,625,340 in short-term investments. In comparison, the breakdown as at March 31, 2004 was as follows: $2,160,308 in cash, $1,672,473 in restricted cash and $443,308 in short-term investments. The increase in cash was due to receipts from accounts receivable, net of payments for outstanding accounts payable. The increase in restricted cash was due to funds received from Access Health Abbotsford (AHA), the private sector partner on the hospital and cancer centre project, and contributions from the Fraser Valley Regional Hospital District (FVRHD) for AHCC's construction costs.

Accounts receivable decreased by $3,759,665 from $8,680,645 to $4,920,980. The decrease was attributable to the Company's improved collection efforts and also an improved system which allowed the Company to recover its out of pocket costs from its clients in a more timely manner.

AHCC repaid the note receivable for Fraser Health Authority (FHA) when the hospital and cancer centre project reached financial close on December 7, 2004. In exchange for repaying FHA's loan, FHA agreed to assign the land at net book value to AHCC.

Net book value of capital assets decreased by $83,909 from $429,002 to $345,093. Amortization expense was $147,758 and capital assets acquisitions totalled $63,849 in 2004–05 compared to amortization expense and capital assets acquisitions of $109,312 and $240,788 respectively in 2003–04.

Land increased by $4,611,647 due to the transfer by FHA of two pieces of land. One piece with a net book value of $2,568,100 was transferred by FHA for nil consideration. The transfer was made at net book value with the credit to contributed surplus.

Construction in progress represents the total construction costs approved for payment by AHA to the contractor by AHCC's independent certifier. As at March 31, 2005, the independent certifier had approved four claims totalling $29,100,175. The balance consists of project insurance costs and work permit fees. The construction in progress as at March 31, 2005 was $32,740,568.

Once the project is completed, ownership of AHCC will be transferred to the FHA and the Provincial Health Services Authority as the organizations overseeing the operations of the hospital and cancer centre.

Deferred development costs related to AHCC's project expenses increased by $4,289,276 from $6,290,389 to $10,579,665. These costs represent the direct development and overhead costs attributable to the project.

Liabilities and Shareholder's Equity

Short-term loan payable was repaid from funds received from AHCC.

Deferred revenue represents funds received for project costs and work fees from the Ministry of Health Services. This deferred amount will be applied against work fees and reimbursable expenses.

Loan payable increased by $33,572,222 due to funding received from AHA for the acquisition of land and construction costs for AHCC.

Deferred capital contribution represents contributions received from FVRHD and reimbursements from the Ministry of Health Services for AHCC's monthly operating costs. During the period, FVRHD contributed $8,620,000 and $4,391,170 was received from the Ministry of Health Services, resulting in a balance of $20,974,032 at year-end.

Statements of Cash Flows

Liquidity and capital resources

The table below presents a comparison of the Company's working capital position for the current fiscal year with those of the previous fiscal year.

	2005	2004	Change
Cash and cash equivalents	$ 14,781,438	$ 4,276,089	$ 10,505,349
Accounts receivable	4,920,980	8,680,645	(3,759,665)
Note receivable	-	1,520,095	(1,520,095)
Other current assets	64,061	14,247	49,814
	19,766,479	14,491,076	5,275,403
Accounts payable and accrued liabilities	4,004,167	4,266,614	(262,447)
Deferred revenue	111,724	950,000	(838,276)
Short-term loan payable	-	1,507,300	(1,507,300)
Net working capital	$ 15,650,588	$ 7,767,162	$ 7,883,426

As at March 31, 2005, the Company's principal sources of liquidity include cash and cash equivalents of $14,781,438 and accounts receivable of $4,920,980. The Company also has $4,004,167 in accounts payable and accrued liabilities due next year.

Cash flow from operating activities

Cash flow from operating activities was $4,566,497 for 2004–05 compared to cash used of $1,125,509 in 2003–04. The significant increase was due to improved collection efforts and receipt of note receivable from the FHA.

Cash flow from investing activities

Cash investment was $10,037,065 in 2004–05 compared to $6,531,177 in 2003–04. Capital asset acquisitions including the acquisition of land and construction in progress for the AHCC project were $5,683,940. The balance of $4,289,276 was operating expenses incurred on behalf of AHCC.

Cash flow from financing activities

Cash flow from financing activities was $15,975,917 in 2004–05 compared to $7,797,689 in 2003–04. During the year, the Company repaid its short-term loan payable from receipt of note receivable. The

Company also received $8,620,000 in contributions from the FVRHD for AHCC's construction costs.

Commitments

The Company is committed to payments under operating leases for premises through fiscal 2007 as follows:

Year	Amount
2006	$ 455,885
2007	99,265
	$ 555,150

Contractual obligations

Under the public private partnership agreement, the Company has contracted with the private sector partner to build a hospital and cancer centre, including equipment, at a cost of $355 million. The FVRHD is contributing a total of $71 million to the total cost. The remainder of the cost will be advanced by the private sector partner, which will be repaid over the term of the agreement.

The agreement also provides for the private sector partner to operate and maintain the hospital and cancer centre from the time it opens, expected to be May 2008 to April 2038.

The Company will make payments from the time the hospital and cancer centre opens to the end of the term. The first year's payment will be $40.8 million, excluding any bonuses or penalties and future payments will be adjusted for inflation.

Selected Annual Information

The following table presents selected financial information for the years ended March 31, 2005, 2004 and 2003.

	2005	2004	2003
Total revenues	$ 6,369,431	$ 7,424,651	$ 6,639,667
Total operating expenses	$ 6,059,695	$ 5,170,229	$ 3,527,367
Net income (loss)	$ 289,516	$ 1,965,993	$ (26,930)
Total current assets	$ 19,766,479	$ 14,491,076	$ 7,764,408
Total assets	$ 68,043,452	$ 21,210,467	$ 8,061,934
Total current liabilities	$ 4,115,891	$ 6,723,914	$ 3,504,236
Total liabilities	$ 58,662,145	$ 14,686,776	$ 3,504,236

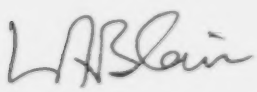
Management Report

The consolidated financial statements of Partnerships British Columbia Inc. for the year ended March 31, 2005, have been prepared by management in accordance with Canadian generally accepted accounting principles. These consolidated financial statements present fairly the financial position of Partnerships British Columbia Inc. as at March 31, 2005.

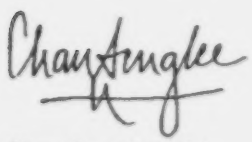
Management is responsible for the preparation of the consolidated financial statements and has established a system of internal control to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and financial records provide reliable information for the preparation of consolidated financial statements.

The Board of Directors carries out its responsibility for the review of the consolidated financial statements. The Board meets with management and the external auditor to discuss the results of audit examinations and financial reporting matters. The external auditor has full access to the Board.

The Auditor General of British Columbia has performed an independent audit of the consolidated financial statements of Partnerships British Columbia. The Auditor's report outlines the scope of his examination and expresses an opinion on the consolidated financial statements of Partnerships British Columbia Inc.



Larry Blain
President and Chief Executive Officer
Partnerships British Columbia Inc.



Chan-Seng Lee, CA
Comptroller
Partnerships British Columbia Inc.

Report of the Auditor General of British Columbia

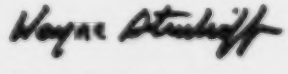
To the Board of Directors of Partnerships British Columbia Inc., and

To the Shareholder of Partnerships British Columbia Inc.:

I have audited the consolidated balance sheet of *Partnerships British Columbia Inc.* as at March 31, 2005 and the consolidated statements of income and retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of *Partnerships British Columbia Inc.* as at March 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Victoria, British Columbia
April 29, 2005

Wayne Strelioff, FCA
Auditor General

PARTNERSHIPS BRITISH COLUMBIA INC.
Consolidated Balance Sheets as at March 31

	2005	2004
ASSETS		
Current assets		
Cash and cash equivalents (Note 4)	$ 14,781,438	$ 4,276,089
Accounts receivable	4,920,980	8,680,645
Note receivable (Note 5)	-	1,520,095
Other current assets	64,061	14,247
Total current assets	19,766,479	14,491,076
Capital assets (Notes 2 and 6)	345,093	429,002
Land (Notes 5 and 11)	4,611,647	-
Construction in progress (Note 7)	32,740,568	-
Deferred development costs (Note 8)	10,579,665	6,290,389
Total assets	**$ 68,043,452**	**$ 21,210,467**

The accompanying Notes to Consolidated Financial Statements are an integral part of these Statements.

APPROVED ON BEHALF OF THE BOARD

R.T. Mahler
Director

M.E. Morfitt
Director

PARTNERSHIPS BRITISH COLUMBIA INC.
Consolidated Balance Sheets as at March 31

	2005	2004
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	$ 4,004,167	$ 4,266,614
Deferred revenue	111,724	950,000
Short-term loan payable (Note 5)	-	1,507,300
Total current liabilities	4,115,891	6,723,914
Loan payable (Note 9)	33,572,222	-
Deferred capital contribution (Note 10)	20,974,032	7,962,862
Total liabilities	58,662,145	14,686,776
SHAREHOLDER'S EQUITY		
Share capital		
Authorized		
5,000,000 common shares, no par value		
Issued		
2 common shares	2	2
Contributed surplus (Note 11)	7,152,726	4,584,626
Retained earnings	2,228,579	1,939,063
Total shareholder's equity	9,381,307	6,523,691
Total liabilities and shareholder's equity	**$ 68,043,452**	**$ 21,210,467**

The accompanying Notes to Consolidated Financial Statements are an integral part of these Statements.

PARTNERSHIPS BRITISH COLUMBIA INC.
Consolidated Statements of Income and Retained Earnings for the Years Ended March 31

	2005	2004
REVENUES		
Fees for services	$ 4,449,301	$ 5,246,824
Provincial government revenue	1,800,000	2,100,000
Other revenue	120,130	77,827
	6,369,431	7,424,651
EXPENSES		
Operating expenses		
Administration	322,541	301,882
Amortization	147,758	109,312
Building occupancy	440,372	330,882
Communications	73,594	76,218
Information systems	166,654	168,055
Professional services	359,850	517,263
Salaries and benefits	4,372,481	3,478,213
Travel	176,445	188,404
Total operating expenses	6,059,695	5,170,229
Operating income	309,736	2,254,422
Project recoveries	10,161,385	6,147,614
Project expenses (Note 12)	10,181,605	6,436,043
	(20,220)	(288,429)
Net income	289,516	1,965,993
Retained earnings (deficit), beginning of year	1,939,063	(26,930)
Retained earnings, end of year	**$ 2,228,579**	**$ 1,939,063**

The accompanying Notes to Consolidated Financial Statements are an integral part of these Statements.

PARTNERSHIPS BRITISH COLUMBIA INC.
Consolidated Statements of Cash Flows for the Years Ended March 31

	2005	2004
Operating activities		
Net income	$ 289,516	$ 1,965,993
Add:		
Amortization	147,758	109,312
	437,274	2,075,305
Changes in working capital items:		
Accounts receivable	3,759,665	(5,051,484)
Note receivable	1,520,095	(1,520,095)
Other current assets	(49,814)	(14,086)
Accounts payable and accrued liabilities	(262,447)	762,378
Deferred revenue	(838,276)	2,622,473
Cash provided (used) by operating activities	4,566,497	(1,125,509)
Investing activities		
Purchase of capital assets	(63,849)	(240,788)
Acquisition of land and construction in progress	(5,683,940)	-
Deferred development costs	(4,289,276)	(6,290,389)
Cash (used) by investing activities	(10,037,065)	(6,531,177)
Financing activities		
Short-term loan payable	(1,507,300)	1,507,300
Loan payable	4,472,047	-
Deferred capital contribution	13,011,170	6,290,389
Cash provided by financing activities	15,975,917	7,797,689
Increase in cash and cash equivalents	10,505,349	141,003
Cash and cash equivalents, beginning of year	4,276,089	4,135,086
Cash and cash equivalents, end of year	**$ 14,781,438**	**$ 4,276,089**

The accompanying Notes to Consolidated Financial Statements are an integral part of these Statements.

1. NATURE OF BUSINESS

Partnerships British Columbia Inc. (Partnerships BC or the Company) is a company owned by the Province of British Columbia (the Province) and governed by a Board of Directors reporting to its shareholder, the Minister of Finance. The Company has been mandated to promote public private partnerships and to advise, support and, in some cases, manage the creation of public private partnerships and to carry out related activities. The mandate of the Company is to maximize the value to the Province of public capital assets, such as hospitals, educational facilities, and highways and to minimize the cost and improve the quality of government services provided using these assets.

The Company's core business is to:

- Provide specialized services to the Province and its agencies in the procurement of major public projects, ranging from advice to business transaction and procurement management;
- Provide advice to the Province and its agencies on public private partnership project management, deal structure, risk management, procurement, and the selection and engagement of consultants;
- Foster a positive business and policy environment for successful public private partnerships and related activities by continually expanding British Columbia's base of knowledge, understanding and expertise in these emerging areas; and
- Manage an efficient and leading edge organization that meets or exceeds performance expectations.

The Company's clients are public sector agencies, including ministries, Crown corporations, and local authorities such as regional health districts. To serve these clients effectively, Partnerships BC is also working to build strong relationships with private sector partners such as businesses, investors and the financial services sector.

The Company's wholly-owned subsidiary, Abbotsford Hospital and Cancer Centre Inc. (AHCC) was incorporated under the Company Act on September 2, 2003 to enter into a public private partnership as the public sector partner for the building and operation of a hospital and cancer centre in Abbotsford, British Columbia. AHCC was registered as a not-for-profit organization under Section 149(1)(l) of the Income Tax Act.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These Consolidated Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles. Significant accounting policies are as follows:

a. Principles of Consolidation
The Consolidated Financial Statements include the accounts of Partnerships BC and its wholly-owned subsidiary AHCC.

b. Short-Term Investments
Short-term investments are carried at fair values.

c. Capital Assets
Capital assets are recorded at cost and amortized on a straight-line basis over their estimated useful lives using the following annual rates:

• Computer software	2 years
• Computer hardware	3 years
• Furniture and equipment	5 years
• Leasehold improvements	5 years
• Website development	3 years

d. Deferred Development Costs
Deferred development costs represent the direct development and overhead costs directly attributable to the development of AHCC. These costs include pre-acquisition costs such as environmental studies, legal and other professional services. When the project is complete, these costs will form part of the capitalized cost of the asset.

e. Federal and Provincial Taxes
Partnerships BC is exempt from corporate income taxes; however, it is subject to the Goods and Services Tax (GST).

f. Revenue Recognition
Project Recoveries
Reimbursements of eligible expenses are recognized in the period the expenses are incurred.

Fees for Services
Partnerships BC's fees for professional services are recognized in the period when the services are rendered. There are two types of fees for services – work fees, and completion and milestone fees. Work fees are recognized for services rendered in the period based on the extent of progress or percentage of completed deliverables. Completion and milestone fees are recognized when the services rendered under contracts are completed or the milestones are achieved.

Deferred capital contribution
The company follows the deferral method of accounting for contributions. Contributions are recognized

as revenue in the year in which the related expenses are incurred.

g. Related Parties

Partnerships BC is related through common ownership to all provincial government ministries, agencies and Crown corporations. The majority of the Company's clients are also provincial government ministries, agencies and Crown corporations.

Transactions with these entities, considered to be in the normal course of operations, are recorded at the exchange amounts. Transfers of assets are recorded at net book value.

h. Accounting Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions based on information available. Such estimates and assumptions may affect the reported amounts of assets, liabilities, revenues, expenses and disclosure of contingent assets and liabilities. Actual amounts could differ from those estimates.

3. CONSOLIDATION

Partnerships BC incorporated a wholly-owned subsidiary, AHCC, under the Company Act on September 2, 2003 and commenced operations on that date to provide a single public entity to contract with the private sector partner.

AHCC entered into a project agreement with the private sector partner on December 7, 2004. Under the agreement, the private sector partner will design, construct, finance, operate and maintain the hospital and cancer centre until the end of the term of the agreement, May 6, 2038. All payment obligations to the private sector partner are guaranteed by the Province.

Once the project is completed, ownership of AHCC will be transferred to the Fraser Health Authority and the Provincial Health Services Authority as the organizations overseeing the operations of the hospital and cancer centre.

These Consolidated Financial Statements include the accounts of AHCC as follows:

	2005	2004
Current assets	$ 9,481,610	$ 1,672,474
Land	4,611,647	-
Construction in progress	32,740,568	-
Deferred development costs	10,579,665	6,290,389
Total assets	$57,413,490	$ 7,962,863
Current liabilities	$ 299,135	$ -
Deferred capital contribution	20,974,032	7,962,862
Loan payable	33,572,222	-
Net assets	2,568,101	1
Total liabilities and net assets	$57,413,490	$ 7,962,863

4. CASH AND CASH EQUIVALENTS

	2005	2004
Cash	$ 4,867,017	$ 2,160,308
Restricted cash	8,289,081	1,672,474
Short-term investments	1,625,340	443,307
	$14,781,438	$ 4,276,089

Restricted cash represents contributions from the Fraser Valley Regional Hospital District for construction costs in relation to the hospital and cancer centre (see Note 1). The contributions are included in deferred capital contribution referred to in Note 10.

Short-term investments consist of liquid investments, such as the Province of British Columbia Pooled Investment Portfolios, term deposits, money market instruments, and Canadian government securities with maturities of 90 days or less from the date of purchase.

5. NOTE RECEIVABLE

The note receivable represented a loan agreement between Partnerships BC and the Fraser Health Authority, a related party, for the purpose of land acquisition for AHCC (see Note 1). The Company agreed to make the loan to the Fraser Health Authority to facilitate the purchase. The Company borrowed the money for the loan from the Province of British Columbia under a Short-Term Financing Agreement dated June 18, 2003. The Fraser Health Authority subsequently assigned the land and the loan agreement to AHCC after an agreement was signed by AHCC and the private sector partner.

6. CAPITAL ASSETS

	Cost	Accumulated Amortization	Net Book Value 2005	Net Book Value 2004
Computer software	$ 75,292	$ 72,213	$ 3,079	$ 24,981
Computer hardware	126,128	63,625	62,503	52,777
Furniture and equipment	214,733	83,262	131,471	172,900
Leasehold improvements	206,014	64,107	141,907	166,078
Website development	18,398	12,265	6,133	12,266
	$ 640,565	$ 295,472	$ 345,093	$ 129,002

7. CONSTRUCTION IN PROGRESS

Construction in progress is recorded at cost. The balance represents the percentage of construction completed as certified by an independent third party certifier.

8. DEFERRED DEVELOPMENT COSTS

Deferred development costs represent the accumulation of all planning costs directly attributable to the acquisition of the hospital and cancer centre (see Note 1). These costs will be amortized in future periods.

9. LOAN PAYABLE

The value of the construction in progress is recorded as a loan payable. Partial repayments are made from contributions received from the Fraser Valley Regional Hospital District. These repayments are made on a quarterly basis.

10. DEFERRED CAPITAL CONTRIBUTION

Deferred capital contribution represents the contributions received from the Fraser Valley Regional Hospital District and reimbursements from the Ministry of Health Services for the Company's monthly operating costs. During the year, the Company received $8,620,000 (2004 – $1,672,474) in contributions from the Fraser Valley Regional Hospital District and $4,391,170 (2004 – $6,290,388) from the Ministry of Health Services.

11. CONTRIBUTED SURPLUS

Partnerships BC was incorporated on October 26, 1977 (as Duke Point Development Limited) under the Business Corporations Act, formerly the Company Act, as a Crown corporation of the Province. In March 2002, Duke Point Development Limited transferred all its physical property to the Province and ceased all land development activities. In August 2002, as part of the restructuring of the Corporation, the Province, as shareholder, authorized the elimination of the accumulated deficit of Duke Point Development Limited, in the amount of $29,786,662, by reducing the shareholder's contributed surplus of $34,371,288 by a corresponding amount. The remaining balance of $4,584,626 remains in contributed surplus of Partnerships BC.

During the year, the Fraser Health Authority transferred a piece of land with a net book value of $2,568,100 to the Company for nil consideration. The corresponding credit was made to contributed surplus.

12. PROJECT EXPENSES

Project expenses represent costs, such as legal and consulting fees, incurred by Partnerships BC in connection with projects. The Company normally recovers these costs from its clients. Indirect and specific project costs ineligible for reimbursement are covered by provincial government revenue under the Public Private Partnerships Agreement between the Province and Partnerships BC, dated April 1, 2002.

Project expenses incurred during the year are as follows:

Project	2005	2004
Abbotsford Hospital and Cancer Centre	$ -	$ 76,078
Britannia Mine Water Treatment Plant	350,278	139,977
Coquihalla Highway	-	796,319
Golden Ears Bridge	-	662,424
Gateway	828,485	818,741
Kicking Horse Canyon	569,528	157,376
Knowledge Network	16,385	143,932
Okanagan Lake Crossing	722,614	819,386
Royal Roads University	152,334	-
Sea to Sky Highway Improvement Project	6,838,994	1,821,699
Sierra Yoyo Desan Road	153,101	754,407
Others	549,886	245,704
	$10,181,605	$ 6,436,043

13. COMMITMENTS

Partnerships BC is committed to payments under operating leases for premises through fiscal 2007.

The estimated payments are as follows:

Year	Amount
2006	$ 455,885
2007	99,265
	$ 555,150

14. CONTRACTUAL OBLIGATIONS

Under the public private partnership agreement referred to in Note 3, AHCC has contracted with the private sector partner to build a hospital and cancer centre, including equipment, at a capital cost of $355 million. The Fraser Valley Regional Hospital District is contributing a total of $71 million to the total cost. The remainder of the cost will be advanced by the private sector partner, which will be repaid over the term of the agreement.

The agreement also provides for the private sector partner to operate and maintain the hospital and cancer centre from the time it opens, expected to be May 2008 to April 2038.

AHCC will start making payments once the hospital and cancer centre reaches substantial completion, expected to be May 2008. The first year's payment will be $40.8 million, excluding any bonuses or penalties and future payments will be adjusted for inflation.

15. EMPLOYEE BENEFIT PLANS

Partnerships BC and its employees contribute to the Public Service Pension Plan under the terms of the Public Sector Pension Plans Act. The Public Service Pension Plan is a multi-employer, defined-benefit pension plan and is available to substantially all Partnerships BC employees.

The British Columbia Pension Corporation administers the Plan, including payment of pension benefits on behalf of employers and employees to whom the Act applies. The most recent valuation on March 31, 2002 has determined that the Plan is in a surplus position. Effective January 1, 2001, the Public Service Pension Plan changed to a joint trusteeship whereby the risks and benefits are shared between the employees and the employers.

Employees are entitled to specific retirement benefits as provided for under their terms of employment. The cost of employee future benefits for this plan is recognized as an expense in the year contributions are paid. Total employer contributions during the year was $197,346 (2004 – $147,227).

16. FINANCIAL INSTRUMENTS

a. Fair Value
As at March 31, 2005, the carrying values of financial instruments, including accounts receivable, other current assets, accounts payable and accrued liabilities, and deferred revenue, approximates their fair values because of the short-term nature of these instruments.

b. Interest Rate Risk
Interest rate risk is limited due to the short-term nature of the investments held.

c. Credit Risk
Partnerships BC grants credit to its clients, the majority of whom are provincial government ministries, agencies and Crown corporations. Credit risk is limited due to the financial stability of these organizations.

17. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the 2005 presentation.

Corporate Governance

Partnerships BC reports through its Board of Directors to the Province, represented by the Minister of Finance. The Board of Directors was appointed July 15, 2003, with directors drawn from the public and private sectors. The board has two key functions: to provide governance and oversight for the company, and to review and approve potential partnership opportunities.

Board of Directors

Rick Mahler (Chair)

Harold Calla

Celia Courchene

Jim Dinning

Ellen Morfitt

Charles Jago

Barry Lapointe

Carol Stephenson

Board Committees

The board is supported by two subcommittees:

The Audit and Risk Management Committee reviews, recommends and in some cases approves all financial statements and other financial information. This includes audited financial statements, quarterly financial statements, the annual report and any quarterly reports, the annual service plan, annual business plan and operating and capital budgets and any budget presentations to government. The committee also reviews the company's risk management, internal controls and information systems. The committee includes Ellen Morfitt (Chair), Barry Lapointe and Harold Calla.

The Human Resources and Governance Committee assists the Board with human resource issues, compensation matters and the establishment of a plan of continuity and development of senior management. The committee also provides a focus on corporate governance to enhance the performance of the company. The committee includes Charles Jago (Chair), Carol Stephenson, Celia Courchene, and Jim Dinning.

Senior Management

- Larry Blain, President and C.E.O.
- Mike Marasco, Vice President, Partnerships Development
- Grant Main, Vice President, Policy and Practices
- Suromitra Sanatani, Vice President, Corporate and Government Relations

Subsidiary: Abbotsford Hospital and Cancer Centre Inc.

Project Description and Vision

The Abbotsford Regional Hospital and Cancer Centre project is a greenfield 300-bed integrated referral hospital and cancer centre. It replaces an aging and functionally obsolete community hospital, and is designed to provide a wider range of services and meet the increasing health care needs of one of the fastest growing regions in British Columbia.

The project involves a long term agreement between the public and private sector wherein the public sector (the Fraser Health Authority and the Provincial Health Services Authority) provide clinical services and the private partner finances, designs, builds and maintains a high quality hospital and cancer centre and provides facility management services such as housekeeping, food, laundry and linen services over a 30 year period.

The project vision is:

"Together we will create an innovative environment that inspires caring and the pursuit of knowledge and excellence."

Mission

Abbotsford Hospital and Cancer Centre Inc. is responsible for the procurement of the Abbotsford Regional Hospital and Cancer Centre from the competitive process through to the commissioning of the facility, at which point it will be transferred to the Fraser Health Authority and Provincial Health Services Authority for the 30 year operations phase of the project.

Governance Structure

Abbotsford Hospital and Cancer Centre Inc. was established under the B.C. Company Act as the public sector decision making and contractual vehicle for the purposes of the public private partnership. It is a wholly-owned subsidiary of Partnerships BC.

The company has a five member Board of Directors, including representatives from Partnerships BC, the Ministry of Health Services, the Fraser Health Authority and the Provincial Health Services Authority. In addition, the Fraser Valley Regional Hospital District, which is making a significant capital contribution to the project, is represented at the Board in an observer capacity.

Following substantial completion of the project, the shares of the company will be transferred from Partnerships BC to the Fraser Health Authority and the Provincial Health Services Authority.

Operations and Results

The past year has been a successful one for Abbotsford Hospital and Cancer Centre Inc. Following a request for proposals process, a private sector partner, Access Health Abbotsford (AHA), was identified as the preferred proponent for the project, and subsequent negotiations culminated in the financial close of a project agreement on December 7, 2004.

The agreement brings with it a wide range of benefits, which were articulated in the Project Report: Achieving Value for Money. This report was the focus of a review by the Auditor General, which concluded that the report fairly described the context, decisions, procurement processes and results to date of the project.

The project has now entered the design and construction phase. The schematic design is complete and intense detailed design development work is under-

way. The site was prepared for construction and the pouring of foundations commenced in mid-March 2005. Substantial completion of the project is scheduled for May 6, 2008. It is anticipated that the regional hospital and cancer centre will begin to treat patients in the summer of 2008. Further information on AHCC, including the project Value for Money report, can be found on the Partnerships BC website.

Financial Results

Abbotsford Hospital And Cancer Centre Inc.
Balance Sheet

As at March 31

	2005	2004	Change
ASSETS			
Current assets			
Cash and Cash Equivalent	$ 9,463,081	$ 1,672,474	$ 7,790,607
Accounts Receivable	18,529	-	18,529
Land	4,611,647	-	4,611,647
Construction in Progress	32,740,568	-	32,740,568
Deferred Development Costs	10,579,665	6,290,389	4,289,276
Total Assets	$ 57,413,490	$ 7,962,863	$ 49,450,627
LIABILITIES AND NET ASSETS			
Current Liabilities			
Accounts Payable and Accrued Liabilities	$ 299,135	$ -	$ 299,135
Deferred Capital Contributions	20,974,032	7,962,862	13,011,170
Loan Payable	33,572,222	-	33,572,222
Total Liabilities	54,845,389	7,962,862	46,882,527
Net Assets			
Unrestricted Net Assets	1	1	-
Net Assets Invested in Capital Assets	2,568,100	-	2,568,100
Total Net Assets	2,568,101	1	2,568,100
Total Liabilities and Net Assets	$ 57,413,490	$ 7,962,863	$ 49,450,627

Assets

Cash and cash equivalents increased by $7,790,607 from $1,672,474 to $9,463,081. The breakdown of cash and cash equivalents for 2005 was as follows: $8,289,081 in restricted cash and $1,174,000 in short-term investments. In comparison, the breakdown for 2004 was as follows: $1,672,474 in restricted cash. The increase in restricted cash was due to funds received from AHA, the private sector partner on the AHCC project, and contributions from the Fraser Valley Regional Hospital District (FVRHD) for AHCC's procurement and construction costs.

Accounts receivable relates to accrued interest.

Land increased by $4,611,647. One piece was acquired from FHA by the Company and the other, with a net book value of $2,568,100 was transferred from FHA.

Construction in progress represents the total construction costs approved for payment by AHA to the contractor by AHCC's independent certifier. As at March 31, 2005, the independent certifier has approved four claims totalling $29,100,175. The balance consists of project insurance costs and work permit fees. The construction in progress as at March 31, 2005 was $32,740,568.

Deferred development costs related to AHCC's project expenses increased by $4,289,276 from $6,290,389 to $10,579,665. These costs represent the direct development and overhead costs attributable to the project.

Liabilities and Net Assets

Deferred revenue represents funds received for project costs and work fees from the Ministry of Health Services. This deferred amount will be applied against work fees and reimbursable expenses.

Loan payable increased by $33,572,222 due to funding received from AHA for the acquisition of land and construction costs for AHCC.

Deferred capital contribution represents contributions received from FVRHD and reimbursements from the Ministry of Health Services for monthly operating costs. During the period, FVRHD contributed $8,620,000 and $4,391,170 was received from the Ministry of Health Services, resulting in a balance of $20,974,032 at year-end.

Net assets invested in capital assets of $2,568,100 relates to the net book value of the land transferred from FHA.

FTE Count

AHCC Inc. has no full time equivalent (FTE) employees.

Appendix: Changes to Goals and Measures

2004–05 Service Plan	2005–2006 Service Plan	Comments
Goal: To pursue, structure and implement public private partnerships	Goal: To pursue, structure and implement public private partnerships	
Measures: • Positive assessment of Board of Directors	Measures: • Positive assessment by Board of Directors • **Pilot engagements in health and advanced education** • **Public private partnership development agreement engagements with Province and/or agencies**	Quantitative measures added for objective assessment
Goal: Satisfy Clients	Goal: Satisfy Clients	
Measure: • Meet or exceed client expectations	**Measure:** • **Meet or exceed client requirements**	Revised
Goal: Become commercially viable	Goal: Become commercially viable	
Measures: • Revenues to meet or exceed 80% of expenses • Set parameters for sufficient equity	**Measures:** • **Meet financial plan targets in 2004/05** • **Equity exceeds six months operating expenses**	Revised to acknowledge that six months would be sufficient for the company to adapt its operations to a changed business environment
Goal: Be widely recognized as a centre of excellence for innovation, leadership and expertise in public private partnerships	Goal: Be widely recognized as a centre of excellence for innovation, leadership and expertise in public private partnerships	
Measures: • Annual examples of best practices established, external recognition, new market participants in B.C., synergies and cost reductions in procurement processes; best practices adopted within and outside B.C. government	Measures: • Annual examples of best practices established, acknowledged and adopted within the Provincial government and by other governments • Annual examples of synergies and process cost savings • **Revenue generation from clients outside of the provincial government** • New market participants in B.C.	Reworded to provide examples of potential measures Reworded: it was determined that revenue generation from other levels of government within B.C. or from governments outside the province was a more accurate indicator of external recognition
	Goal: Build and Retain the Partnerships BC Team	Added in recognition of strategic importance of team
	Measures: • **Investment in employee training and improvement – set benchmark** • **Employee satisfaction – set benchmark**	Measure being revised for 2006–07

* Bold text indicates changes from previous years.

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